



## ROLE AND SIGNIFICANCE OF INSURANCE IN INTERNATIONAL TRADE IN INDIAN CONTEXT

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### ABSTRACT

The insurance sector plays a critical role in international trade by providing risk mitigation services and products to businesses engaged in cross-border transactions. The risks associated with international trade can be substantial, ranging from political risks to physical risks, and insurance companies offer a variety of policies to help mitigate these risks. For example, export credit insurance protects exporters from the risk of non-payment by foreign buyers, while political risk insurance provides coverage for losses due to political events such as expropriation or war. Cargo insurance protects goods in transit from physical damage or loss, and marine insurance covers risks specific to transportation by sea.

By providing these essential services, the insurance sector helps to facilitate international trade by reducing uncertainty and increasing confidence among businesses. This, in turn, helps to foster economic growth, create jobs, and promote international cooperation and understanding. Insurance companies also provide services such as risk assessment and management, as well as guidance on compliance with international trade regulations. In addition, insurance policies can be customized to meet the specific needs of individual businesses involved in international trade.

Overall, the role of the insurance sector in international trade cannot be overstated, as it is a vital component of the global economy and a key enabler of international commerce. The insurance sector plays a vital role in facilitating international trade by providing the necessary protection and support to businesses engaged in cross-border transactions.

**KEYWORDS:** Insurance, Cargo Insurance, International Trade, GDP, Risk

### INTRODUCTION

Insurance is a contract between an individual or organization (the insured) and an insurance company (the insurer) in which the insurer agrees to provide financial protection to the insured in the event of a specified loss or damage. The insured pays a premium to the insurer, and in exchange, the insurer agrees to cover certain risks that the insured faces, such as damage to property, loss of income due to disability, or medical expenses.

There are many different types of insurance policies, including health insurance, life insurance, property insurance, liability insurance, and more. Each type of insurance policy provides coverage for different types of risks, and the cost of the policy will vary based on factors such as the insured's age, health status, occupation, and the level of coverage requested.

Insurance is an important tool for managing risk and protecting against unexpected events. By transferring some of the risk to an insurer, individuals and organizations can protect themselves against financial losses that could be devastating without insurance coverage.

The insurance sector refers to the industry that provides insurance products and services to individuals, businesses, and other organizations. This sector is an important part of the

global economy, as it helps to manage and mitigate financial risks for individuals and businesses alike.

The insurance sector can be broken down into several sub-sectors, including life insurance, health insurance, property and casualty insurance, and reinsurance. Life insurance provides coverage in the event of an individual's death, while health insurance covers medical expenses. Property and casualty insurance provides coverage for damage to property and liability for accidents, while reinsurance companies provide insurance for insurance companies, spreading risk across the industry.

The insurance sector is highly regulated, with different rules and regulations governing the industry in different countries. In addition to insurance companies, the sector also includes brokers and agents who help individuals and businesses find the right insurance products to meet their needs.

Overall, the insurance sector plays a vital role in the global economy, providing protection and financial security to individuals and businesses alike.

### REVIEW OF LITERATURE

**Relwendé Sawadogo (2019)** examined how the growth of

insurance has affected global trade for a sample of fifty-two developing nations between 1990 and 2014. Long-term comparative advantage in international commerce is evident for nations with more established insurance sectors, according to the pooled mean group estimator results. Next, the sample is split into upper-middle-income countries and low- and lower-middle-income countries. The emergence of non-life insurance is far more significant for upper-middle-income countries than it is for lower- and middle-income countries.

**Meifang Long, Wei Zhou, Meifang Long (2016)** studied The demand on the global market is still too low right now. Therefore, in order to effectively develop foreign trade, it is crucial that we take reasonable precautions to minimise the danger associated with it. Insurance is a form of monetary compensation and is crucial to global commerce. It is crucial to further clarify the status and function of insurance in international commerce and trade in order to assist the growth of China's foreign trade operations. First and foremost, insurance may help China's foreign trade grow normally. Secondly, the nation's economy can be supported by the foreign exchange funds that accumulate. Finally, insurance helps the foreign trade department conduct business.

**Sajid Mohy Ul Din, Khurram S. Mughal and Umer Farooq (2013)** Economists contend that a trade deficit over time can hinder a nation's ability to prosper economically. While globalization offers a plethora of opportunities for international trade, doing cross-border business also carries a number of risks, both political and commercial. Since gaining independence, Pakistan has experienced a continuous trade imbalance. Apart from the ongoing war on terror and the deplorable state of law and order, there is a markedly increased danger of theft, damage, and loss during cross-border trade. Companies insure themselves under various commercial and public insurance policies in order to mitigate these risks. This study aims to examine the relationship, both short- and long-term, between trade openness, general insurance, marine, and economic growth in Pakistan from 1982 to 2009.

**Donghui Li, Fariborz Moshirian, Ah-Boon Sim (2003)** examined the factors influencing intra-industry trade (IIT) in insurance services, given the growing importance of trade in financial services and the focus on trade in financial services during the Uruguay round of trade negotiations. The amount of IIT in insurance services for the US is measured and analysed in this article. The volume of trade in insurance services is significantly influenced by foreign direct investment (FDI), according to the empirical results of the drivers of IIT. These empirical results support the new theoretical trade models, which hold that trade and foreign direct investment (FDI) complement each other and, as a result, multinational insurance companies are helping to increase the volume of trade in insurance services. Traditional trade theory saw trade and FDI as substitutes for insurance services. This study also demonstrates how the level of commerce between the US and its trading partners increases consumer welfare by fostering product differentiation in the insurance services market.

### Role and Significance of Insurance in International Trade in Indian Context

The insurance sector has made a significant contribution to the Gross Domestic Product (GDP) of India in recent years. According to the latest data available from the Reserve Bank of India, the insurance sector contributed 3.94% to India's GDP in the fiscal year 2020-21.

The insurance industry in India has experienced significant growth in recent years, driven by factors such as rising awareness of the importance of insurance, a growing middle class, and increasing disposable incomes. The Indian government has also taken steps to support the growth of the insurance sector, such as increasing the foreign direct investment (FDI) limit in insurance from 49% to 74% in 2021.

The insurance sector in India comprises both life and non-life insurance segments. The life insurance segment is the largest and accounted for 2.8% of India's GDP in 2020-21, while the non-life insurance segment contributed 1.1% to GDP. Health insurance, a subset of the non-life insurance segment, has been growing rapidly in recent years and is expected to continue to grow in the coming years.

Overall, the insurance sector plays a significant role in the Indian economy, providing financial protection to individuals and businesses and contributing to the country's overall GDP.

### Insurance Sector and Growth of Indian Business Sector

The insurance sector has played a crucial role in the growth of the Indian business sector by providing financial protection and risk management solutions to businesses of all sizes. By providing insurance coverage for a range of risks, the insurance sector helps businesses manage their financial exposure and mitigate potential losses, thereby providing a stable environment for growth and expansion.

One of the primary ways that the insurance sector contributes to the growth of the Indian business sector is by providing protection against liability claims. Liability insurance covers businesses in the event of claims made against them for damages or injuries caused by their products or services. By providing this coverage, the insurance sector enables businesses to operate with greater confidence and security, without fear of financial ruin in the event of a lawsuit.

In addition to liability insurance, the insurance sector also provides property and casualty insurance to protect businesses against losses due to damage or destruction of property or assets. This type of coverage can be particularly important for businesses that rely on physical assets to operate, such as manufacturing companies, transportation firms, and construction companies.

Moreover, the insurance sector plays a vital role in the growth of the Indian business sector by providing health insurance coverage to employees. Health insurance coverage can help businesses attract and retain talented employees by providing valuable benefits that improve the overall well-being of their

workforce.

Overall, the insurance sector has made a significant contribution to the growth of the Indian business sector by providing financial protection and risk management solutions that enable businesses to operate with greater confidence and security.

### **Insurance Sector and International Trade**

The insurance sector plays a critical role in facilitating international trade by providing protection against the various risks that businesses face when engaging in cross-border commerce. International trade involves a range of risks, including risks associated with transportation, currency fluctuations, political instability, and non-payment by customers, among others. Insurance companies offer a range of insurance products and services that help businesses mitigate these risks and ensure that their trade transactions proceed smoothly.

One of the most important insurance products for international trade is cargo insurance. This type of insurance covers the loss or damage of goods during transportation, whether by sea, air, or land. Cargo insurance helps businesses manage their risk when shipping goods across borders and ensures that they are adequately protected against financial loss in the event of damage or loss of goods.

In addition to cargo insurance, the insurance sector also provides trade credit insurance, which protects businesses against the risk of non-payment by customers. Trade credit insurance is particularly important for businesses that extend credit terms to customers in international trade, as it helps to mitigate the risk of non-payment and enables businesses to expand their international customer base.

Political risk insurance is another insurance product that is essential for businesses engaged in international trade. This type of insurance protects businesses against risks associated with political instability, such as expropriation, currency inconvertibility, and political violence. By providing this type of coverage, insurance companies enable businesses to operate with greater confidence in challenging international environments.

Overall, the insurance sector plays a critical role in supporting international trade by providing businesses with the protection and risk management solutions they need to operate successfully in the global marketplace.

The insurance sector offers a range of insurance products to protect businesses engaged in international trade against various risks. Some of the types of risk protected by the insurance sector in international trade are:

- **Cargo and Freight Risks:** These risks include loss or damage to goods during transportation, delays in delivery, theft, and piracy. Cargo and freight risks refer to the risks associated with the transportation of goods, whether by sea, air, or land. These risks can include loss or damage to goods, delays in delivery, theft, piracy,

and other issues that can impact the safe and timely delivery of cargo. Insurance companies offer a range of insurance products to protect businesses against cargo and freight risks. One of the most important of these products is cargo insurance, which provides coverage for loss or damage of goods during transportation. Cargo insurance can be purchased by businesses or individuals who ship goods internationally or domestically and covers various risks, including damage due to accidents, natural disasters, theft, and piracy. In addition to cargo insurance, insurance companies may also offer marine insurance, which covers goods transported by sea. Marine insurance can include coverage for cargo, hull and machinery, and liability risks associated with the operation of a vessel. Air cargo insurance is another type of insurance product that provides protection against the risks associated with air transportation of goods. This type of insurance covers damage or loss of goods during air transit, as well as other risks such as delays, theft, and hijacking.

Overall, the insurance sector plays a critical role in protecting businesses against cargo and freight risks by offering a range of insurance products and services that provide financial protection and risk management solutions. By purchasing appropriate insurance coverage, businesses can mitigate the risks associated with the transportation of goods and ensure that their cargo arrives at its destination safely and on time.

- **Currency Risks:** These risks arise from fluctuations in foreign exchange rates, which can impact the value of payments, receipts, and investments made by businesses engaged in international trade. Currency risk is the risk that arises from fluctuations in foreign exchange rates. This risk can impact businesses engaged in international trade, as it can affect the value of payments, receipts, and investments made in foreign currencies. For example, a business may agree to sell goods to a customer in a foreign country and receive payment in the local currency. If the value of the local currency declines against the business's home currency, the business may receive less money than expected when it converts the local currency back into its home currency. To manage currency risk, businesses can use a range of strategies, including hedging with currency derivatives or purchasing currency options. These strategies can help businesses lock in a favorable exchange rate and reduce the impact of currency fluctuations on their finances. Insurance companies also offer a type of insurance product known as currency risk insurance or exchange rate risk insurance. This type of insurance provides coverage for losses resulting from currency fluctuations, including losses on currency holdings, changes in the value of outstanding debts, and other currency-related risks. Currency risk insurance can be particularly useful for businesses that have significant exposure to foreign exchange rate fluctuations. Overall, currency risk is an important consideration for businesses engaged

in international trade, and insurance companies offer a range of insurance products and services to help businesses manage this risk and protect themselves against financial losses.

- **Political Risks:** These risks include expropriation, nationalization, war, civil unrest, and other political events that can disrupt international trade. Political risk is the risk that arises from political events or instability in a foreign country that can negatively impact businesses engaged in international trade. These risks can include expropriation, nationalization, war, civil unrest, terrorism, and other political events that can disrupt international trade. Political risks can cause significant financial losses for businesses engaged in international trade, as they can result in the seizure or loss of assets, the disruption of operations, and the cancellation of contracts.

To manage political risk, businesses can use a range of strategies, including political risk insurance. Political risk insurance is a type of insurance product that provides coverage for losses resulting from political risks, including losses due to expropriation, currency inconvertibility, and political violence. This type of insurance can be particularly useful for businesses operating in countries with high levels of political instability or that are engaged in high-risk industries such as oil and gas, mining, and infrastructure.

Overall, political risk is an important consideration for businesses engaged in international trade, and insurance companies offer a range of insurance products and services to help businesses manage this risk and protect themselves against financial losses. By purchasing appropriate insurance coverage and taking other risk management measures, businesses can mitigate the impact of political risk and continue to operate with confidence in the global marketplace.

- **Credit Risks:** These risks arise from non-payment by customers or suppliers, which can lead to financial losses for businesses engaged in international trade. Credit risk is the risk of financial loss that arises when a borrower or counterparty fails to repay a loan or meet its financial obligations. Credit risk is a significant concern for banks and other financial institutions that lend money or provide credit to individuals and businesses. Credit risk can arise from a variety of factors, including economic downturns, industry-specific risks, and borrower-specific risks such as poor credit history or financial instability. In addition, credit risk can also be impacted by geopolitical events, changes in regulations, and other factors that can impact the creditworthiness of borrowers.

To manage credit risk, financial institutions use a range of strategies, including credit risk analysis and credit risk mitigation techniques such as collateralization,

credit insurance, and credit derivatives. Credit insurance is a type of insurance product that provides coverage for losses resulting from credit risk. Credit insurance can be particularly useful for businesses that have significant exposure to credit risk and need to protect themselves against potential losses due to default or insolvency. Overall, credit risk is an important consideration for financial institutions and businesses that engage in lending or credit activities. By using appropriate risk management techniques and insurance products, these entities can mitigate the impact of credit risk and protect themselves against potential financial losses.

- **Regulatory Risks:** These risks include changes in regulations or policies governing international trade, which can impact the operations and profitability of businesses. Regulatory risk is the risk that arises from changes in regulations or laws that impact businesses engaged in international trade. Regulatory risk can be caused by changes in trade policies, tariffs, customs regulations, labor laws, and other regulatory frameworks that impact international trade. Regulatory risk can have a significant impact on businesses engaged in international trade, as changes in regulations can result in increased costs, reduced profitability, and disruptions to supply chains. In addition, regulatory risk can be particularly challenging for businesses that operate in multiple countries, as regulations can vary significantly from one country to another.

To manage regulatory risk, businesses can use a range of strategies, including monitoring regulatory changes, engaging with regulatory authorities, and implementing risk management plans to address potential impacts of regulatory changes. In addition, insurance companies offer a range of insurance products and services to help businesses manage regulatory risk, including trade credit insurance and political risk insurance.

Overall, regulatory risk is an important consideration for businesses engaged in international trade, and it is essential for businesses to understand and manage this risk to protect themselves against potential financial losses. By using appropriate risk management techniques and insurance products, businesses can mitigate the impact of regulatory risk and continue to operate with confidence in the global marketplace.

- **Intellectual Property Risks:** These risks include theft or infringement of intellectual property rights, such as patents, trademarks, and copyrights. Intellectual property risk is the risk that arises when a company's intellectual property, such as patents, trademarks, copyrights, and trade secrets, is infringed upon or misused by a third party. Intellectual property risk can be a significant concern for companies engaged in international trade, particularly those that rely heavily on intellectual property as a core part of their business model. Intellectual property risk can arise from a

variety of factors, including piracy, counterfeiting, infringement, and misappropriation of trade secrets. These risks can result in significant financial losses for businesses, as they can lead to lost revenue, damage to brand reputation, and other negative impacts.

To manage intellectual property risk, companies can use a range of strategies, including patent and trademark registrations, confidentiality agreements, and non-disclosure agreements. In addition, companies can use intellectual property insurance to protect themselves against financial losses resulting from intellectual property infringement. Intellectual property insurance is a type of insurance product that provides coverage for losses resulting from intellectual property risks, including the costs of litigation, damages, and other expenses. This type of insurance can be particularly useful for businesses that rely heavily on intellectual property and need to protect themselves against potential financial losses due to infringement or misappropriation.

Overall, intellectual property risk is an important consideration for businesses engaged in international trade, and it is essential for companies to take appropriate steps to protect their intellectual property and manage the associated risks. By using appropriate risk management techniques and insurance products, businesses can mitigate the impact of intellectual property risk and continue to operate with confidence in the global marketplace.

- **Natural Disaster Risks:** These risks include damage or loss of goods due to natural disasters such as floods, earthquakes, hurricanes, and tsunamis. National disaster risk is the risk that arises from natural disasters such as floods, earthquakes, hurricanes, wildfires, and other similar events. These disasters can have a significant impact on businesses engaged in international trade, as they can cause physical damage to infrastructure, disrupt supply chains, and lead to significant financial losses. National disaster risk can be particularly challenging for businesses that operate in multiple countries, as different countries may have different levels of preparedness and response capabilities for natural disasters. In addition, natural disasters can impact the transportation of goods and disrupt logistics networks, leading to delays and increased costs for businesses.

To manage national disaster risk, businesses can use a range of strategies, including implementing disaster preparedness plans, diversifying supply chains, and using insurance products to protect against financial losses resulting from natural disasters. Insurance products such as property insurance, business interruption insurance, and contingent business interruption insurance can provide coverage for losses resulting from natural disasters.

Overall, national disaster risk is an important

consideration for businesses engaged in international trade, and it is essential for companies to understand and manage this risk to protect themselves against potential financial losses. By using appropriate risk management techniques and insurance products, businesses can mitigate the impact of national disaster risk and continue to operate with confidence in the global marketplace.

The insurance sector offers a range of insurance products and services to protect businesses engaged in international trade against a variety of risks. By providing this protection, insurance companies enable businesses to operate with greater confidence and security in the global marketplace.

## CONCLUSION

In conclusion, the insurance sector plays a crucial role in facilitating and managing international trade by providing a range of insurance products that protect businesses against various risks associated with global commerce. The insurance sector helps businesses manage risks such as cargo and freight risks, currency risks, political risks, credit risks, regulatory risks, intellectual property risks, and national disaster risks, which can significantly impact a company's financial performance and overall ability to operate in the global marketplace.

Through various insurance products such as trade credit insurance, political risk insurance, property insurance, and business interruption insurance, the insurance sector helps businesses mitigate the impact of these risks and continue to operate with confidence in the global marketplace. Insurance companies also help businesses navigate the complex regulatory environment and provide expert advice on risk management strategies.

Overall, the insurance sector's role in international trade is essential, as it provides businesses with the necessary risk management tools to protect themselves against various risks associated with global commerce. The insurance sector's ability to mitigate risk and provide financial protection helps businesses achieve long-term growth and success in the competitive global marketplace.

In conclusion, the insurance sector plays a vital role in managing various types of risks faced by businesses engaged in international trade, including cargo and freight risks, currency risks, political risks, credit risks, regulatory risks, intellectual property risks, and national disaster risks. These risks can have a significant impact on businesses' financial performance, supply chain operations, and overall ability to operate in the global marketplace.

To manage these risks, businesses can use a range of strategies, including risk management plans, diversification of supply chains, engaging with regulatory authorities, and implementing appropriate insurance products such as trade credit insurance, political risk insurance, property insurance, and business interruption insurance. By taking appropriate steps to manage these risks and protect themselves against potential financial losses, businesses can continue to operate with confidence

in the global marketplace and achieve long-term growth and success.

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